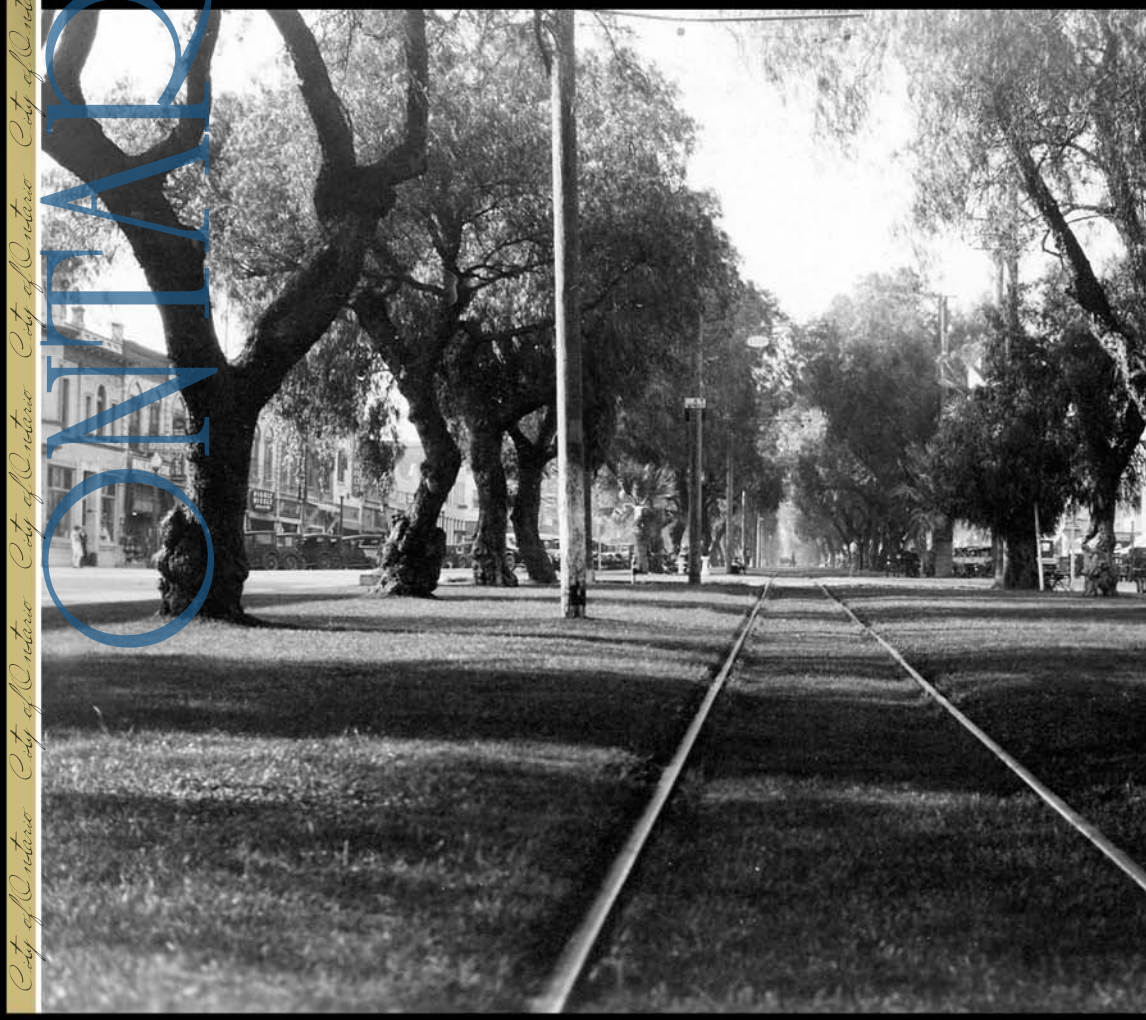
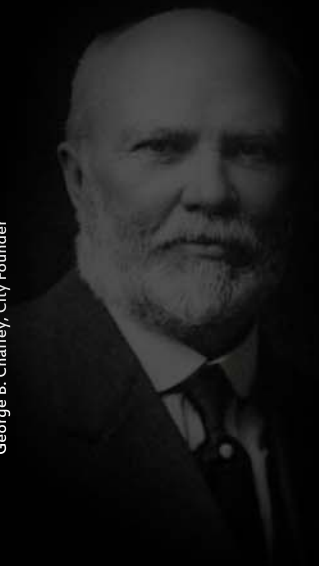


# FOCUS ON THE FUNDAMENTALS



George B. Chaffey, City Founder

## CITY OF ONTARIO, CALIFORNIA

### COMPREHENSIVE ANNUAL FINANCIAL REPORT
### FOR FISCAL YEAR ENDED JUNE 30,2010

# City of Ontario, California

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

## For Fiscal Year Ending June 30, 2010

**Prepared By:**
**Fiscal Services Department**

CITY OF ONTARIO CALIF.
BALANCED COMMUNITY
INCORPORATED 1891

**CITY OF ONTARIO**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS


Page Number

INTRODUCTORY SECTION

Letter of Transmittal ..... v
Certificate of Achievement for Excellence in Financial Reporting ..... xv
Principal Officers ..... xvi
Organizational Chart ..... xvii

**FINANCIAL SECTION**

INDEPENDENT AUDITORS' REPORT ..... 1

MANAGEMENT'S DISCUSSION AND ANALYSIS ..... 3

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:
Statement of Net Assets ..... 37

Statement of Activities ..... 38

Fund Financial Statements:
Balance Sheet - Governmental Funds ..... 40

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets ..... 42

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds ..... 44

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... 46

Budgetary Comparison Statement - General Fund ..... 48

Budgetary Comparison Statement – Quiet Home Program ..... 51

Statement of Net Assets - Proprietary Funds ..... 52

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds ..... 53

Statement of Cash Flows - Proprietary Funds ..... 54

Statement of Fiduciary Net Assets - Fiduciary Funds ..... 55

Notes to Basic Financial Statements ..... 57

**CITY OF ONTARIO**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS


Page Number

**REQUIRED SUPPLEMENTARY INFORMATION**

Modified Approach for City Infrastructure Capital Assets....103

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

Combining Balance Sheet - Nonmajor Governmental Funds....106

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Governmental Funds....114

Budgetary Comparison Schedules - Special Revenue Funds
- Special Gas Tax....121
- Measure I....122
- Park Impact Fees/Quimby....123
- Community Development....124
- Asset Seizure....125
- Mobile Source Air Pollution....126
- Special Assessment/Fee Districts....127
- Building Safety....128
- Storm Drain Maintenance....129
- Ontario Housing Authority....130
- Historic Preservation....131
- NMC Public Services....132
- CFD No.10-Public Services....133
- NMC CFD....134

Budgetary Comparison Schedules – Capital Projects Funds
- Capital Projects....135
- Impact Fees....136
- Redevelopment Administration....137
- Redevelopment Area #1 – Capital Projects....138
- Redevelopment Area #2 – Capital Projects....139
- Redevelopment Center City – Capital Projects....140
- Redevelopment Cimarron – Capital Projects....141
- Redevelopment Guasti – Capital Projects....142
- Combined Low/Moderate Housing....143

Budgetary Comparison Schedules - Debt Service Funds
- Redevelopment Area #1 - Debt Service....144
- Redevelopment Area #2 - Debt Service....145
- Redevelopment Center City - Debt Service....146
- Redevelopment Cimarron - Debt Service....147
- Redevelopment Guasti - Debt Service....148

**CITY OF ONTARIO**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS


Page Number

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES (Continued)**

Combining Statement of Net Assets - Internal Service Funds ..... 149

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds ..... 150

Combining Statement of Cash Flows - Internal Service Funds ..... 151

Combining Balance Sheet - All Agency Funds ..... 152

Combining Statement of Changes in Assets and Liabilities - All Agency Funds ..... 156

**STATISTICAL SECTION** ..... 161

Financial Trends
- Schedule 1 – Net Assets by Component ..... 163
- Schedule 2 – Changes in Net Assets ..... 164
- Schedule 3 – Changes in Fund Balances, Government Funds ..... 166
- Schedule 4 – Fund Balances, Government Funds ..... 168

Revenue Capacity
- Schedule 5 – Assessed Value and Estimated Actual Value of Taxable Property ..... 169
- Schedule 6 – Direct and Overlapping Property Tax Rates ..... 170
- Schedule 7 – Principal Property Tax Payers ..... 171
- Schedule 8 – Property Tax Levies and Collections ..... 172
- Schedule 9 – Taxable Sales by Category ..... 173
- Schedule 10 – Direct and Overlapping Sales Tax Rates ..... 174
- Schedule 11 – Sales Tax Revenue Payers by Industry ..... 175

Debt Capacity
- Schedule 12 – Ratios of Outstanding Debt by Type ..... 176
- Schedule 13 – Ratios of General Bonded Debt Outstanding ..... 177
- Schedule 14 – Direct and Overlapping Governmental Activities Debt ..... 178
- Schedule 15 – Legal Debt Margin Information ..... 179
- Schedule 16 – Pledged-Revenue Coverage ..... 180

Demographic and Economic Information
- Schedule 17 – Demographic and Economic Statistics ..... 181
- Schedule 18 – Principal Employers ..... 182

Operating Information
- Schedule 19 – Full-time City Government Employees by Function ..... 183
- Schedule 20 – Operating Indicators by Function/Program ..... 184
- Schedule 21 – Capital Asset Statistics by Function/Program ..... 185

**AB 1600 DEVELOPMENT IMPACT FEE** ..... 187
- AB 1600 Development Impact Fee Annual Report ..... 188
- Development Impact Fee Project Expenditures ..... 190

This page is intentionally blank.

*Introductory Section*

# CITY OF ONTARIO

303 EAST "B" STREET, CIVIC CENTER ONTARIO CALIFORNIA 91764-4105

(909) 395-2000
FAX (909) 395-2070



PAUL S. LEON
MAYOR

ALAN D. WAPNER
MAYOR PRO TEM

SHEILA MAUTZ
JIM W. BOWMAN
DEBRA DORST-PORADA
COUNCIL MEMBERS

CHRIS HUGHES
CITY MANAGER

MARY E. WIRTES, MMC
CITY CLERK

JAMES R. MILHISER
TREASURER


December 17, 2010

To the Honorable Mayor, City Council, City Manager, and Citizens of the City of Ontario:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Ontario for the fiscal year ended June 30, 2010. This report provides a broad view of the City's financial activities for the 2009-10 Fiscal Year and its financial position as of June 30, 2010. Although addressed to the elected officials and the citizens of the City, this report has a number of other users. Foremost among these other users are bondholders of the City, financial institutions, credit rating agencies, educational institutions, and other governmental entities. In producing a CAFR, the City of Ontario has chosen to provide financial information that is significantly greater than that which is required under state law.

Responsibility for both the accuracy of the information presented in the CAFR as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the information, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position of the City and the results of its operations; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The management of the City has established a system of internal control that is designed to assure that the assets of the City are safeguarded against loss, theft, or misuse. The system of internal control also assures that the accounting system compiles reliable financial data for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of the costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Ontario's financial statements have been audited by Lance Soll & Lunghard, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Ontario for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence




Printed on recycled paper.

supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Ontario's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Ontario was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Ontario's separately issued Single Audit Report.

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (MD&A) included in this report on page 3 to obtain the most complete assessment of the City's current financial status and its future prospects.

## Profile of the Government

Founded as a "Model Colony" in 1881 and one of California's first planned communities, the City of Ontario was incorporated in 1891. Located in western San Bernardino County at the base of the San Gabriel Mountains, the City of Ontario is approximately 35 miles inland from downtown Los Angeles and encompasses nearly 50 square miles. Strategically situated in the heart of Southern California and within the hub of Los Angeles, Orange, San Bernardino and Riverside Counties, Ontario is widely recognized as the "center of it all" and is home to an estimated 174,536 people and approximately 8,000 businesses. Ontario is advantageously positioned with unique, convenient access to the major I-10, I-210, I-15 and Route 60 freeway systems as well as the LA/Ontario International Airport (LA/ONT).

The City of Ontario operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's manager and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected every two years. The mayor is elected to serve a four-year term. The mayor and the four council members are elected at large.

The City of Ontario is a full-service city with approximately 1,063 full-time employees. Services provided include police and fire protection; development including the construction and maintenance of streets, parks, water and sewer lines, traffic signals and other infrastructure; water, waste water and sanitation services; recreation and community services; and cultural and social programs. In addition to general government activities, the City Council also serves as the Board of Directors of the Ontario Redevelopment Agency, the Ontario Industrial Development Authority, the Ontario Redevelopment Financing Authority and the Ontario Housing Authority. Therefore, these activities have been included as an integral part of the City of Ontario's financial statements. Additional information on these entities can be found in Note 1 in the notes to the financial statements.

The Ontario Municipal Code requires that the City Manager present the Annual Operating Budget to the City Council for approval. The Administrative Services Agency, under the direction of the Administrative Services/Finance Director, is responsible for compiling the estimated revenues and appropriations for the City Manager. Prior to the beginning of the new fiscal year, the City Council adopts the Annual Operating Budget at a public budget workshop.

The development of the Fiscal Year Annual Operating Budget begins in January with the dissemination of the budget preparation guidelines. The guidelines include the policies and procedures to ensure that the preparation of the budget conforms to fiscal policies and guidelines established by the City Council. Before the Agency budget requests are submitted to the City Manager, the Administrative Services staff reviews and analyze all Agency requests. This review includes comparative analysis of historical and current expenditure levels. The City Manager and the Administrative Services staff then hold meetings with each Agency Head to discuss the budget requests and obtain additional information to assist in the assessment of the requests. A proposed budget is then submitted to the City Council for consideration in June. The budget must be approved by the City Council before the start of the new fiscal year: July 1st.

The City's budget policy is that all appropriations lapse at fiscal year end. Outstanding encumbrance balances at fiscal year end require re-approval by the City Council at the First Quarter Budget Report. The City Council may amend the budget at any time during the fiscal year. Budget reports are presented to the City Council and the public on a quarterly basis. They include appropriations adjustments and revised revenue projections as needed. The City Manager may authorize budget transfers between line items, programs and Agencies as long as the total budget has not exceeded the amount approved by City Council. Budgetary changes between funds require City Council approval. The level of budgetary controls is set at the Agency level by fund to ensure compliance with the budget as approved by the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Additional information regarding the City's general budget policies can be found in Note 2 in the notes to the financial statements.

## Economic Condition and Outlook

Today, Ontario is referred to by the Southern California association of Governments as the "Next Urban Center in Southern California" and the urban core of the Inland Empire. The City's founding concepts of innovation, planned development, community service and family values are clearly evident in the Mayor and City's Council's commitment to: maintaining Ontario's leadership role in the Inland Empire and the region, continued investment in the growth and evolution of the area's economy, and reinvestment to provide a balance of jobs, housing, and educational and recreational opportunities for residents in a safe, well-maintained community.

While this past year has seen a noticeable reduction in the erosion of revenues and the economy, there is strong concurrence of opinion that any growth in the economy will be minor. The days of strong economic activity within sectors such as Housing, Commercial Real Estate, Construction, Financial, Retail and Automotive have been replaced with stagnant to slow economic growth. Even though property values appear to have bottomed out, local government will continue to feel the impacts from reduced assessed property valuation (as County tax rolls have not been completely updated to reflect all property devaluations), foreclosures, and vacancy rates in commercial and industrial property. There is also a growing concern that there may be a level of "false" economic growth from personal spending in that homeowners defaulting on their mortgage payments may be using those funds to supplement their wages for personal purchases. This in turn could contribute to a "double dip" or second recession later this year.

For the Economy to begin experiencing sustainable recovery, permanent and consistent job creation will be needed. The Great Recession consumed approximately 8.4 million jobs, many of which economists believe will be gone for good. In order to positively affect and begin lowering the unemployment rate, the economy needs to add roughly 150,000 jobs per month on a sustained basis to accommodate adult population growth, re-entry of discouraged workers and part-time employees who would prefer full-time work. With state and local government now being the sector facing tough, financial constraints, the private sector will need to be the jobs generator.

The unemployment rate has remained around the same level for the last 12 months. The unemployment rate as of September 2010 was 9.6 percent in the U.S., 12.2 percent in California, 14.2 percent in San Bernardino County, and 15.1 percent in the City of Ontario. This means that consumer spending power will probably remain the same unless the government introduces additional stimulus programs similar to the "Cash for Clunkers" program or the home buyer tax credit program.

The Consumer Confidence Index (CCI) in October 2010 was 50.2 percent, which was up from 48.6 percent in September. While this is a slight improvement, it is still hovering near its historically low level. It is also below the 53.2 percent mark in August 2010. Consumers are concerned about the short-term outlook. The Consumer Price Index for All Urban Consumers increased 0.2 percent in September 2010 on a seasonally adjusted basis. This increase is primarily attributable to the rise in the food and gasoline indexes.

Rising costs plus a high unemployment rate increases the risk of stagflation. There are two situations where stagflation may occur. First, when the productive capacity of an economy is reduced, such as an increase in the price of oil for an oil importing country, it raises prices and slows the economy by making production more costly and less profitable. Second, it is a result of inappropriate macroeconomic policies. For example, central banks can cause inflation by permitting excessive growth of the money supply, and the government can cause stagnation by excessive regulation of goods and labor markets. Currently, the Federal Reserve has been lowering interest rates by purchasing government bonds to stimulate the economy. We are also experiencing a mild increase in CPI and high unemployment rate. This could be a formula for stagflation.

Compensation costs for civilian workers increased 1.9 percent seasonally adjusted, for the 12-month period ending September 2010. Salaries and wages increased 2.7 percent. The fall of the stock market created a major set-back in retirement funds. For the City of Ontario, this means that the CalPERS rates will continue to increase. According to CalPERS Annual Valuation Report dated October 2010, the City of Ontario's contribution rate in FY 2011-12 will increase by 5.64 percent for the Safety Police Plan to 30.9 percent. The Safety Fire Plan rate will increase by 3.52 percent to 25.9 percent. The Miscellaneous Plan rate will increase by 3.18 percent to 12.4 percent. Using current personnel budget as a base, this translates to an approximate $2.8 million increase in the contribution that the City will have to face within the next fiscal year. CalPERS is estimating rates for Safety Police Plan, Safety Fire Plan, and Miscellaneous Plan to increase to 36.8, 31.8, and 15.8 percent respectively for FY 2013-14. Applying these rates to the current personnel budget, it translates to an additional $3.3 million on top of the $2.8 million mentioned earlier.

The median price of homes sold in September has increased. In California, the median home price sold in September 2010 was $309,900 which was a 4.5 percent increase from September 2009. In the Riverside/San Bernardino region, the median home price sold in September 2010 was $191,080, which was 10.8 percent higher than September 2009. In Ontario, the median home price sold went from $190,000 in September 2009 to $207,500 in September 2010. This represents a 9.2 percent increase. The increase may give a false representation of the real economy as the increase is a result from government

assistance such as the home buyer tax credit and artificially low mortgage rates. Moreover, the continued rise in the number of foreclosures may contribute to further declines in home prices. Home resale activity in September 2010 has declined in California and Riverside/San Bernardino region by 12.2 percent and 24.8 percent respectively compared to September 2009.

Concerning commercial and industrial real estate, there have been positive signs emerging in the Inland area. In general, vacancy rates in the San Bernardino County area are easing if not starting to see a slight improvement. Unfortunately though, lower lease rates which contribute to improving vacancy rates will result in lower property tax revenues received by local government. Looking toward residential real estate, activity has been generally picking up, although it is widely believed that most of the recent gains in both activity and pricing have been due to U.S. tax credits which have now expired, couple with continued low mortgage rates. More time will be needed to determine the level of activity which was unrelated to such incentives.

Historically, the construction industry has brought employment and billions of dollars into the Inland Empire. Now, with the high unemployment rate and the weak real estate market, the construction industry continues to struggle. The unemployment rate in the construction industry was at 17.2 percent in September 2010, which was about the same as September 2009 at 17.1 percent.

The logistics industry is another critical component of the Inland Empire's economy – comprised of companies dealing in transport, warehouse facilities, and brokers dealing with freight related assignments. With the current economic set-back, importing and exporting businesses have declined. The Ontario International Airport is a major gateway for logistic companies such as UPS and FedEX. The decline in air cargo volume mirrored the period of recession. Freight activity has been decreasing since 2005. In 2009, freight was recorded at 390,932 tons, which was a decrease of 90,352 tons or 19 percent compared to 2008, and a decrease of 141,933 tons or 26 percents compared to 2007.

Consistent with air cargo volume, air passenger count has declined as well. Airport travel affects the City of Ontario's transient occupancy tax and parking tax. Both revenue sources have declined significantly during the recession. The 1992 to 2009 records showed that the passenger count at the Ontario International Airport has ranged from 6.1 million in 1992, to a high of 7.2 million in 2005, to a low of 4.9 million in 2009. This is a 20 percent decrease from 1992 and a 32 percent decline from 2005.

The Purchasing Managers Index (PMI) is another indicator of economic activity. This index is used to gauge manufacturing activity. The September 2010 PMI is 54.4 percent. The PMI has been above 50 percent since August 2009. This means that manufacturing in the nation is generally expanding, but at a slow pace.

The economic recovery is proceeding at a slow pace. It is weaker than desired, and the outlook for growth for the rest of the year is now looking dimmer. Many economists are pushing back the time frame as to when they forecast the recovery will occur. As government revenues tend to lag behind the economy by a year, the declines experienced in the recent past will mean more local government and educational job losses for the next year. Another issue is the continued instability of the State budget, which may impact the State's economy and/or local governments through additional raids of local revenues.

With all of this being said, Ontario continues to weather the economic fallout from the Great Recession, primarily due to the thoughtful, responsible, and prudent policy direction provided by the Mayor and City Council. This direction has enabled the City, unlike many other cities throughout the Region and State, to minimize staff reductions, maintain service levels to residents and businesses, and use reserves in a

strategic manner. Consequently, the City should find itself in a better position to be able to take advantage of any opportunities which present themselves as the overall economy eventually begins to work itself out of these financial doldrums.

In anticipation of and in keeping ahead of the impacts of the Global recession on the City's fiscal health, the City Council authorized a number of forward-thinking budget actions over the years, a summary of which is as follows:

- **Hiring / Position Review Process**
  *The City initiated a formal position review/hiring freeze in November 2007, well ahead of and in anticipation of a downturn in the economy. This action has dramatically reduced the need to eliminate filled positions thus far and continues in place today.*

- **Increase Economic Uncertainty Reserves to $24.6 million**

- **General Fund Expenditure Reduction Plan**
  *Early on, analysis of revenues and expenditures projected a City 5-year General Fund budget deficit of approximately $85.5 million. Accordingly, the City Council adopted a series of cost reduction measures as part of FY 2008-09 and FY 2009-10 Operating Budgets, the primary elements of which included 1) use of certain reserves; 2) development of new revenue sources; 3) temporary reductions in internal service fund transfers; and 4) personnel and operating cost reduction measures, including a reorganization of the Public Works/Community Services Agency into the Municipal Utilities Company and the Community and Public Services Agency.*

- **Labor Agreements**
  *The City's Bargaining Groups, across the board, voted to forgo certain wage and/or merit increases during FY 2009-10 and FY 2010-11.*

- **American Reinvestment and Recovery Act (ARRA, aka Federal Stimulus Funds)**
  *The City has been awarded, and continues to proactively seek, Federal Stimulus funding opportunities in the areas of Energy, Fire, and Transportation.*

In spite of the state of the economy, Ontario continues its transformation as the next urban center in Southern California. As part of that transformation, the City this past year adopted its General Plan Update, a dynamic Framework for sustained, comprehensive leadership in building our community, which integrates components of city governance documents that are typically disconnected. The Plan states community direction at a point in time (2008) and integrates it into a single guidance system that will shape the Ontario community 20 years or more into the future. The Ontario Plan provides for lasting policies to accommodate change. It consists of a Vision Plan, Governance Manual, Policy Plan, City Council Priorities, Implementation Plans and Tracking and Feedback, all on a web-based platform.

On January 27th, 2010, Ontario's Mayor and City Council approved the City's forward-thinking General Plan update, The Ontario Plan. The Mayor and City Council believe that it is the City's job to create, maintain and grow the economic value of the Community. To help accomplish this, Ontario is committed to thinking and planning long-term to create certainty and a stable environment for investment. Rather than creating a General Plan that will sit on a shelf at City Hall, Ontario has developed a comprehensive business strategy that will institutionalize Ontario's business-friendly approach and serve as a framework for the City's long-term investment strategies for the next 30 to 40 years. The Ontario Plan builds on the strength of the City's location and transportation assets. It establishes a clear vision of the City's future as distinct urban center – a 'complete community' that creates places where residents and businesses can

thrive, with a variety of housing choices, diverse job opportunities, entertainment and amenities. The Ontario Plan is a bold vision. Ontario is currently on of the 150th largest cities in the United States. The vision will add 190,000 residents and 230,000 jobs, which will move it well into the top 50.

Many cornerstone capital projects realized their first significant period of operations including Citizen's Business Bank Arena, the Ontario Soccer Complex, and City Hall Annex. The Citizen's Business Bank Arena, the 11,000 seat centerpiece of Piemonte at The Ontario Center, hosted sell-out crowds to events such as concerts with the Eagle, Neil Diamond, and Metallica as well as sporting events including an exhibition basketball game with the Los Angeles Lakers, the East Coast Hockey League All-Star game, Professional Bull Riding ("PBR"), and boxing. A wide array of other exciting sporting events, concerts, and family shows took place throughout the second year of operations.

Fiscal Year 2009-10 witnessed the opening of the much anticipated 20 Acre Soccer Complex. With this project, the City now has two lighted, tournament sized, synthetic turf fields; two smaller sized, natural turf fields; lighting for practice areas; shade structures; concession and maintenance buildings and restrooms facilities.

Progress continues in the revitalization of the City's historic core (a 12 square block planning area that includes the City's Civic Center) as construction was largely completed on the Ontario Senior Apartments Project (which opened in late September 2010). This project, consisting of 76 apartments, and builds upon the already completed 300 housing units (140 townhomes and 160 apartments) located within the Ontario Town Square.

The City continued addressing the need for renovating and expanding public facilities to better serve the residential and business communities through rehabilitation and improvement of the former Police building, which has enabled it to serve as a temporary home to most Departments of City Hall while City Hall itself gets a facelift. The anticipated completion of the City Hall renovation is spring, 2011. Additionally, the Revenue Services Department is now operating out of its new location, which is adjacent to the Municipal Utilities Services Center.

Ontario's taxable sales continue to rank first in the Inland Empire region with a large number of manufactures and distributors selling directly to retail customers, the Ontario Mills Mall and its adjacent centers, plus several successful automobile franchises. In calendar year ending December 31, 2009, taxable sales reached approximately $4.7 billion, an increase of 27.5% compared to a decade ago. The largest share of retail sales tax is office equipment at $6.0 million, followed by new auto sales at $5.7 million.

In the southern part of the City, development of an upscale community has begun in an 8,200-acre former agricultural preserve now know as the New Model Colony. This significant area has been purposefully designed to advance the economic dynamics of the City, and at build-out, will add approximately 31,000 homes and 120,000 new residents to Ontario. Among the numerous features of this master-planned community will be an extensive system of pathways, over 500 acres of parklands, conveniently situated retail centers, health facilities, a high technology business park and improvements are completed, neighborhoods are beginning to be developed. Edenglen, by Brookfield Homes, continues to sell the first phase of its upscale community, and additional specific plans are currently under review.

Ontario also provides companies with strategic global access with the LA/Ontario International Airport (LA/ONT). The airport is currently home to UPS' Western Regional hub and its third party logistics operation, and Federal Express' Inland Empire operations. LA/ONT served over 5 million people in 2009 and is expected to serve more than 30 million passengers by 2025. The success of the airport translates to

economic benefits for the Inland Empire through directly related airport business and generates far reaching economic impacts for the region.

Steady growth and rapid development adjacent to the airport, along freeway corridors and throughout Ontario reflect the City's distinctive advantages. Due to Ontario's prime location and transportation infrastructure, the City garners national presence as a first class logistics, distribution and cargo center. Trucking and integrated carriers, a rapidly developing network of national and international freight forwarders, and the Union Pacific Railway all service Ontario. With exceptional convenience to major regional, national and international markets, and modern facilities, Ontario has become the place to be for manufacturing, warehousing and distribution. City records show that Ontario is home to nearly 8,000 businesses which account for approximately 108,000 jobs.

Ontario is attractive for both tenants and builders alike. In 2007, Ontario saw a growing demand for office space due to the expansion of population-serving office firms, large back-office operations, corporate offices, professional groups and knowledge based industries. As of April 2010, office inventory in Ontario totaled 3,564,515 square feet. The highly sought after Class A office sector consists of 2,557,159 square feet in 34 buildings. There are 192 Class B buildings that total 902,696 square feet and the Class C sector consists of 104,660 square feet in 111 buildings. Companies find that space in Ontario is much more affordable than its coastal neighbors. In 2009, Ontario's average lease rates were $2.13 per square foot, compared to $2.21 in Orange County and $2.60 in Los Angeles County. It is projected that Ontario will offer 15-25 million square feet of office space within the next 20 years to fulfill the needs of its growing resident and business population.

Making the most of Ontario's resources for the benefit of the entire community is at the heart of the Mayor and City Council's commitment to business and economic development. This is evident in the continuing investment and reinvestment in necessary infrastructure and amenities to attract higher paying employers such as high-technology and engineering firms. The City's business and economic development strategies are successfully yielding a return on investment to be funneled back into new community facilities, programs and neighborhood improvements that enable Ontario to retain the charm and warmth of a small town while providing big city resources and services. True to the vision of its founding fathers to create and sustain a broadly diverse and balanced city, Ontario is prepared to face its opportunities and challenges with pride, purpose, conviction and commitment as it builds itself as the next urban center.

## Long-Term Financial Plan

In addition to managing the City's money in a manner that ensures Ontario is financially stable, the City's long-term goals, efforts and actions include: focusing resources in Ontario's commercial and residential neighborhoods; investing in the City's infrastructure; maintaining the current high level of public safety; providing enhanced recreational, educational and cultural activities; and investing in the growth and evolution of the City's economy.

The City of Ontario's goals with regard to public safety have been accomplished over the years through significant investments in personnel, equipment, and technology. These investments have returned profits and dividends in the form of dramatically decreasing crime rates in Ontario. Over the last decade, crime rate has fallen 35%: 2,371 incidents per 100,000 residents in 2000 compared to 1,542 crimes per 100,000 residents for 2009. In addition, the City had 1,075 fewer crimes reported between 2000 and 2009, even though its population increased by approximately 9.6%.

Ontario's commitment to infrastructure improvements is demonstrated by the City's five-year Capital Improvement Program that includes projects such as:

- $ 6,600,000 in storm drain and sewer improvements
- $ 5,375,000 in water system improvements
- $ 4,233,000 in street improvements
- $ 2,755,588 in public facilities improvements
- $ 400,000 in traffic improvements, and
- $ 65,000 in park and landscape improvements

The City of Ontario has, through prudent long-range policy decisions and sound fiscal management, maintained its position as an economic leader in Southern California. It is hoped that Ontario's well-balanced economic base will allow the City to ride out the on-going financial crisis with the least possible impacts to service levels. The City will continue to monitor key economic indicators, sources of revenues, and spending levels as part of its sound conservative fiscal approach.

During the next few years, the City of Ontario will continue to be faced with exciting new developments as well as formidable economic challenges. Through the combined leadership of the City Council and the implementation of its prudent fiscal policies, the City has been able to enhance service levels to the community, invest in capital project to enhance public facilities and infrastructure, and continue programs to promote its standing as the economic leader in the Inland Empire and a formidable player in California and the nation. The development of the New Model Colony, completion of the soccer complex and a community events center as well as projects currently underway in the Civic Center and The Ontario Center, will provide a mixed retail-housing component as well as enhanced cultural opportunities for residents, and contribute to Ontario's reputation as the place to live, work, and play.

## Relevant Financial Policies

### Cash Management Policies and Procedures

Cash temporarily idle during the year was invested in U.S. Treasury notes, Federal Agency securities, corporate bonds and the California State Local Agency Investment Fund. At the end of June 30, 2010, maturity of the investments range from 0 days to 5 years, with an average maturity of 1.79 years. The average yield on investments was 2.14%. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

### Risk Management

The City of Ontario has an active risk management program in which a reserve is established to meet potential losses. In addition, various risk control techniques, including employee accident training, are used to minimize-accident related losses. The City is self-insured and is a member of the Authority for California Cities' Excess Liability (ACCEL). Additional information on the City of Ontario's risk management activity can be found in Note 10 in the notes to the financial statements.

### Pension and Other Post-Employment Benefits

The City of Ontario contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employees defined benefit pension plan for its safety and non-safety personnel. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries.

The City of Ontario also provides post-retirement health care benefits for its retired employees according to the Personnel Rules and Regulations for each of the seven employee groups. As of the end of the current fiscal year there were 465 retired employees receiving these benefits, which are currently financed on a "pay-as-you-go" basis or paying for those benefits in the year used. This method differs from the pre-funding used for most pension benefits where costs are funded while the employees are working and funds are invested until paid to the retirees. The "pay-as-you-go" approach has led to an accumulation of significant financial liabilities pertaining to future retiree health benefits. These liabilities must be quantifies and reported under new government accounting rules that come into effect for the City of Ontario in this fiscal year. Recognizing this problem several years ago, the Mayor and City Council established the Unfunded Retiree Health Benefits reserve account in 2001 and have designated funds toward this issue in each of the subsequent years. As of June 30, 2010, the City has reserved approximately $44.9 million for future retiree medical costs.

Additional information on the City of Ontario's pension arrangements and post-employment benefits can be found in Notes 8 and 9 in the notes to the financial statements.

## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ontario for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the twenty-third consecutive year that the City has received this prestigious award. In order to be awarded the annual certificate for excellence, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must also satisfy both generally acceptable accounting principles and applicable legal requirements. We believe our current comprehensive annual financial report conforms to the GFOA Certificate of Achievement Program and are submitting it for review and consideration.

In addition, the City of Ontario received distinguished budget awards from the GFOA and the CSMFO for its Fiscal Year 2009-10 Adopted Operating Budget. This is the eleventh consecutive year in which the City has been bestowed these prestigious awards. To receive these awards, the City's budget document met program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Fiscal Services Department and the Administrative Services Senior Administrative Assistant who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor, City Council and the City Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Ontario's finances.

Sincerely,

Grant D. Yee
Administrative Services/Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Ontario
## California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

*City of Ontario*

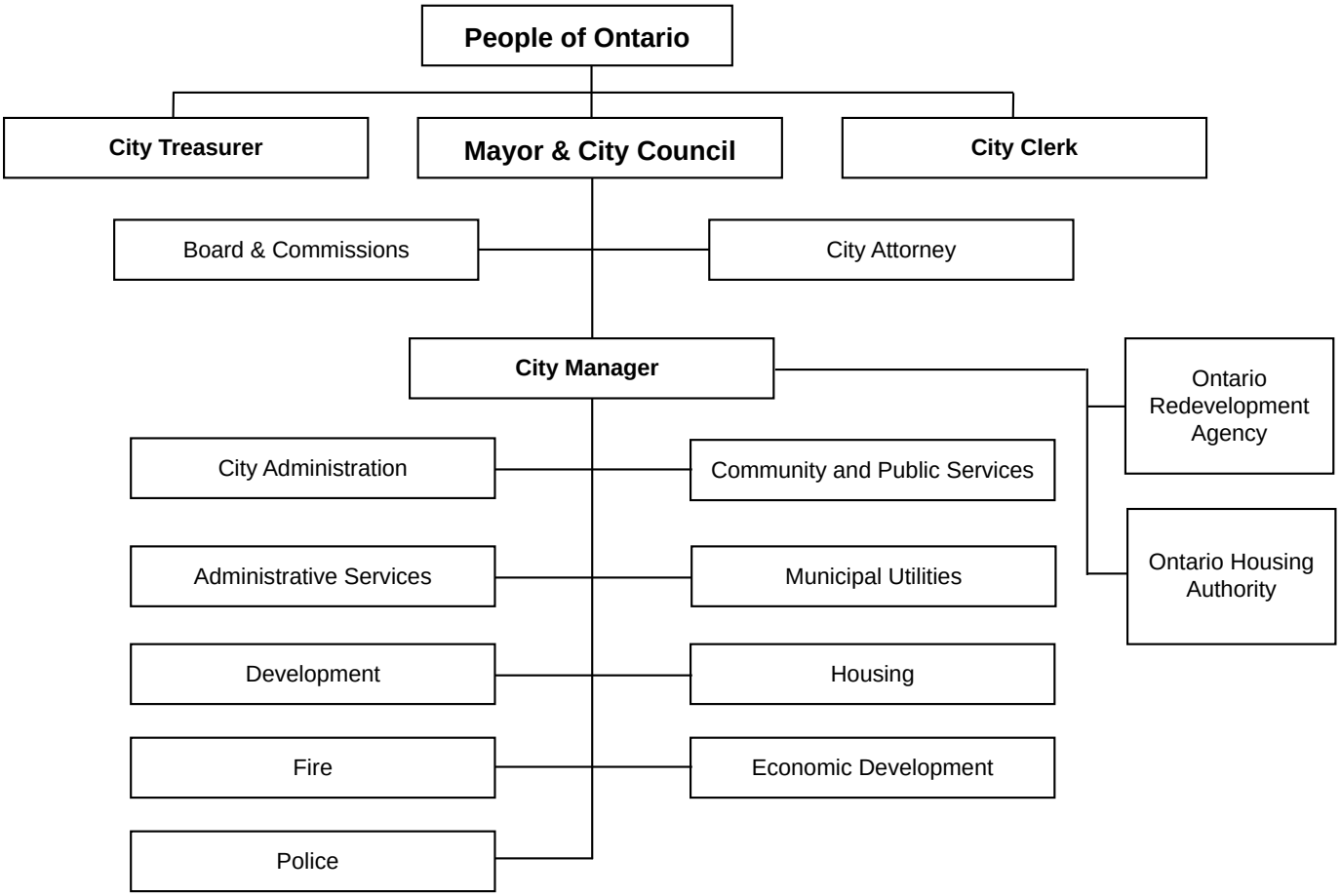
## *Elected Officials*

*Mayor .....Paul S. Leon*
*Mayor Pro Tem .....Alan D. Wapner*
*Council Members .....Sheila Mautz*
*.....Jim W. Bowman*
*.....Debra Dorst-Porada*
*City Treasurer.....James R. Milhiser*
*City Clerk .....Mary E. Wirtes*

## *Administration and Executive Management*

*City Manager/Executive Director of the Redevelopment Agency/*
*Executive Director of the Housing Authority.....Chris Hughes*
*Deputy City Manager .....Al C. Boling*
*City Attorney .....John E. Brown*
*Administrative Services/Finance Director .....Grant D. Yee*
*Development Director .....Otto Kroutil*
*Fire Chief.....David A. Carrier*
*Police Chief .....Eric V. Hopley*
*Community & Public Services Director.....Mark Chase*
*Utilities General Manager.....Mohamed El-Amamy*
*Housing and Neighborhood Revitalization Director .....Brent D. Schultz*
*Economic Development Director.....John P. Andrews*

# City of Ontario



This page is intentionally blank.